



## **CORPORATE INVESTMENT STRATEGY 2021/22**

### **(To be approved 4 March 2021)**

#### **1. Background and Introduction**

- 1.1 This strategy outlines the Authority's Corporate & Commercial Investment Strategy for 2021/22 for consideration and approval by Council before the start of the financial year.
- 1.2 The Authority's Treasury Management Strategy, Capital Programme, Capital Strategy and Minimum Revenue Provision (MRP) Policy are addressed in other reports.
- 1.3 The Authority invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
  - to support local public services by lending to or buying shares in other organisations (**service investments**), and
  - to earn investment income (known as **commercial investments** where this is the main purpose).
- 1.4 This Corporate Investment Strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

#### **2. Treasury Management Investments**

- 2.1 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and to suppliers, benefit claimants etc.). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £11m and £25m during the 2021/22 financial year.

**Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities and to generate income while having regard to security and liquidity.

**Further details:** Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the Treasury Management Strategy, available on the Authority's website.

### 3. Service Investments

#### 3.1 Service Investments: Loans

3.1.1 **Contribution:** The Authority has powers to lend money to any subsidiaries, its suppliers, business partners, parish and town councils, local charities, housing associations, its employees and to community groups to support local public services and stimulate local economic growth. For example, the Authority may give a loan to a local community group who are undertaking a project to deliver affordable housing. The capital programme that is to be approved in March 2020 includes one service loan in 2021/22 for £110,000.

3.1.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

*Table 1: Loans for service purposes*

Category of borrower	31.3.2020 Actual			2021/22
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0	0	0	£500,000
Town and parish councils	0	0	0	£500,000
Business partners	0	0	0	£1m
Local charities	0	0	0	£500,000
Local community groups	0	0	0	£500,000
Housing associations	0	0	0	£1m
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>£4m</b>

3.1.3 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. Should Council approve the service loan that has been included in the draft Capital Programme for 2020/21 or make other service investments in 2021/22, the figures for loans in the Authority's statement of accounts from 2021/22 onwards will be shown net of this loss allowance. However, officers will make every reasonable effort to collect the full sum lent and will put in place appropriate credit control arrangements in place to monitor payments and to recover overdue payments.

3.1.4 **Risk assessment:** The Authority will assess the risk of loss before entering into and whilst holding service loans, using the following approach:

1. The Authority will consider a comprehensive business case and business plan for each individual potential investment opportunity. This will include a market analysis focussing on competition, demand and current market trends.
2. To ensure that it has access to quality advice and expertise in specialist areas, the Authority will use external advisers where appropriate. This may include an assessment of the particular market that the Authority will be competing in, the nature and level of competition, an assessment of how the market/customer needs will evolve over time, barriers to entry and exit, legal and taxation issues and any ongoing investment requirements (such as a credit reference check). Each potential investment will undergo qualitative and quantitative appraisal to establish its relevance to the Authority's Corporate Plan priorities and the legal and financial implications of the purchase.

### 3.2 Service Investments: Shares

- 3.2.1 **Contribution:** The Authority currently has an equal share in the Derbyshire Building Control Partnership, along with 5 other local authorities, to support local development by delivering a local service. The Authority has powers to invest in the shares of any subsidiaries, its suppliers, and business partners to support local public services and stimulate local economic growth.
- 3.2.2 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31.3.2020 Actual			2021/22
	Amount invested	Gains or losses	Value in accounts	Approved Limit
Derbyshire Building Control Partnership	£1	0	£1	£1
Business Partners	0	0	0	£500,000
<b>TOTAL</b>	<b>£1</b>	<b>0</b>	<b>£1</b>	<b>£500,001</b>

- 3.2.3 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by using the following approach:
  1. The Authority will consider a comprehensive business case and business plan for each individual potential investment opportunity. This will include a market analysis focussing on competition, demand and current market trends.
  2. To ensure that it has access to quality advice and expertise in specialist areas, the Authority will use external advisers where appropriate. This may include an assessment of the particular market that the Authority will be competing in, the nature and level of competition, an assessment of how

the market/customer needs will evolve over time, barriers to entry and exit, legal and taxation issues and any ongoing investment requirements (such as a credit reference check). Each potential investment will undergo qualitative and quantitative appraisal to establish its relevance to the Authority's core values and the legal and financial implications of the purchase.

3.2.4 **Liquidity:** Based on the approved limit in Table 2 the funds will not be required in the short term and may prudently be committed for the periods covered by this strategy.

3.3 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

#### **4. Commercial Investments: Property**

4.1 The MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

4.2 **Contribution:** The Authority currently invests in three retail sites with the intention of generating income that will be spent on local public services. The main property investments that are held are shown in the table below:

*Table 3: Property held for investment purposes*

Property	Actual	Actual 31.03.20		Expected 31.03.21	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Retail Site 1	n/a*		£1,337,000		£1,337,000
Retail Site 2	n/a*		£121,000		£121,000
Retail Site 3	n/a*		£128,000		£128,000
Bakewell road site					<b>£10,000</b>
<b>TOTAL</b>			<b>£1,586,000</b>		<b>£1,596,000</b>

\*The council acquired ground leases for both investment properties in 1974.

4.3 The Authority has a Commercial Investment Strategy to set a framework for the expansion of the existing commercial investment portfolio with the intention of making a profit, wherever possible, that will be spent on local public services. The table below shows the total exposure forecast for 2021/22.

Table 4: Expected exposure: property held for investment purposes

Property	31.03.20 Actual	31.03.21 Forecast	31.03.22 Forecast
Retail site 1	£1,337,000	£1,337,000	£1,337,000
Retail site 2	£121,000	£121,000	£121,000
Retail Site 3	£128,000	£128,000	£128,000
Other Commercial investments: Potential Property (investments 2021/22)	0	10,000	£801,000
<b>TOTAL EXPOSURE</b>	£1,586,000	£1,596,000	£2,387,000

- 4.4 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Where the value in accounts is at or above purchase cost a fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2020/21 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

- 4.5 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by using the Commercial Investment Strategy and the following approach:

1. The Authority will consider a comprehensive business case and business plan for each individual potential investment opportunity. This will include a market analysis focussing on competition, demand and current market trends.
2. To ensure that it has access to quality advice and expertise in specialist areas, the Authority will use external advisers where appropriate. This may include advice from the Authority's retained Commercial Development Advisor, an assessment of the particular market that the Authority will be competing in, the nature and level of competition, an assessment of how the market/customer needs will evolve over time, barriers to entry and exit, legal and taxation issues and any ongoing investment requirements (such as a credit reference check). Each potential investment will undergo qualitative and quantitative appraisal to establish its relevance to the Authority's core values and the legal and financial implications of the purchase.

- 4.5 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period

to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will only invest cash that is not needed in the short term based on current cash flow predictions. In addition to this a well-diversified property portfolio will be held, spread across different property sectors.

## 5. Other Categories of Commercial Investment

5.1 The Authority had an investment reserve, from which Council could approve other types of investment, e.g. loans for commercial purposes. In 2021/22 the balance on this reserve has been fully committed to the investment property project at Bakewell Road, Matlock.

5.2 **Contribution:** The Authority does not currently have any non-property commercial investments. The Authority has a Commercial Investment Strategy which provides a framework to expand its existing commercial investment portfolio with the intention of making a profit wherever possible that will be spent on local public services. The table below shows the total exposure forecast for 2021/22.

*Table 5: Expected exposure: Other commercial investments*

	31.03.20 Actual	31.03.21 Forecast	31.03.22 Forecast
Other Commercial investments: (investments 2021/22)	0	0	£500,000
<b>TOTAL EXPOSURE</b>	0	0	£500,000

5.3 **Security:** In accordance with government guidance, the Authority considers a commercial investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Where accounts preparation and audit process value these investments below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

5.4 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by using the by using the Commercial Investment Strategy and the following approach:

1. The Authority will consider a comprehensive business case and business plan for each individual potential investment opportunity. This will include a market analysis focussing on competition, demand and current market trends.
2. To ensure that it has access to quality advice and expertise in specialist areas, the Authority will use external advisers where appropriate. This may

include advice from the Authority’s retained Commercial Development Advisor, an assessment of the particular market that the Authority will be competing in, the nature and level of competition, an assessment of how the market/customer needs will evolve over time, barriers to entry and exit, legal and taxation issues and any ongoing investment requirements (such as a credit reference check). Each potential investment will undergo qualitative and quantitative appraisal to establish its relevance to the Authority’s core values and the legal and financial implications of the purchase.

- 5.5 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority will only invest cash that is not needed in the short term based on current cash flow predictions. In addition to this a well-diversified property portfolio will be held, spread across different property sectors.

## **6 Loan Commitments and Financial Guarantees**

- 6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and, therefore, are included in this Strategy for completeness.
- 6.2 The Authority has contractually committed to make a Loan of £110,000 to Hurst farm Social Club in 2021/22 to support regeneration of the building, this will be repaid to the council by March 2022.

## **7 Proportionality**

- 7.1 For 2021/22 the Authority’s revenue budget includes some income arising from profit-generating investment activity. Table 6 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plan for continuing to provide these services is to use the General Reserve, which is forecast to have a balance of £738,000 at 31 March 2022.

*Table 6: Proportionality of Investments*

	2019/20 Actual £'000	2020/21 Forecast £'000	2021/22 Budget £'000	2022/23 MTFP £'000	2023/24 MTFP £'000
Gross service expenditure	31,196	31,726	30,264	30,849	31,466
Investment income	101	101	101	149	164
Proportion	0.32%	0.32%	0.34%	0.48%	0.52%



### 8 Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

### 9 Capacity, skills and culture

9.1 This Authority recognises the importance of ensuring that all Elected Members and Officers involved in investment decisions are fully equipped to undertake the duties and responsibilities allocated to them and have the appropriate capacity, skills and information to enable them to make informed decisions e.g. as to whether to enter into a specific investment. There is a requirement to understand:

- the context the Authority's corporate objectives
- the Authority's risk appetite and risk assessment framework
- the prudential framework
- the regulatory regime in which the council operates.

9.2 Officers: The Authority will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The following measures are in place:

- Identification of officer training needs on commercial investment related issues through the Performance Development and Review process;
- Attendance at relevant training events, seminars and workshops; and
- Support from the Authority's treasury management advisors, Arlingclose.

9.3 Elected Members: Elected members' training needs are assessed through the Member Development Group. The Authority will also specifically address this important issue by:

- Periodically facilitating workshops or other training for members on commercial investment issues;
- Interim reporting and advice to members.

9.4 Where necessary the Authority will engage external advisers for investment advice, property surveys and due diligence checks. The cost of any such advice will be taken into account when developing business cases and when assessing the overall viability of projects.

9.5 It is important that the Authority has sound arrangements in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Authority's values. In terms of governance, all new commercial investment proposals will be considered by Full Council. Full Council is responsible for the approval of the Corporate Investment Strategy and for monitoring performance against it.



9.6 The Authority's values include transparency in decision-making. To facilitate that, the following arrangements are in place:

- This Corporate Investment Strategy will be made available on the Authority's website;
- Meetings of Policy Committees and Full Council will be open to the public and the agendas and minutes from such meetings will be shown on the Authority's website.

## 10 Commercial deals

10.1 The Authority has a decision making framework which is aligned to the requirements of the Statutory Guidance Relating to Local Authority Investments. Any future commercial investment opportunities will be considered by Full Council. The Council is not able to borrow from PWLB for projects

The guiding principles that will be used will require future commercial projects to:

- meet the Authority's Corporate Priorities;
- deliver community benefit;
- require minimum investment for maximum return;
- be primarily within the District boundaries, consideration will be given to opportunities outside these boundaries if the benefit to the Council or Derbyshire Dales is significant;
- grow the business base;
- deliver a diversified portfolio of projects that balance risk and return.

The Council will assess future commercial investment against the Commercial Investment Strategy. All investments will be subject to rigorous scrutiny and successful schemes will result in the provision of a report to Council for approval. Schemes will be considered for investment against the following criteria;

- i. Economic Impact – in particular; jobs, business growth and new housing.
- ii. Impact on Market Towns– in terms of vibrancy, footfall and heritage.
- iii. Financial Implications - value for money, affordability (note impact on PWLB borrowing (see 11.2 below) and return of investment.
- iv. Deliverability – the ability to deliver the proposals and the associated risks.

Successful applications will require appropriate legal agreements in accordance including the provision of appropriate security where required.

## 11 Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

- 11.1 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

*Table 7: Total investment exposure £ Millions*

Type of investment	31.03.20 Actual £ Millions	31.03.21 Forecast £ Millions	31.03.22 Forecast £ Millions
Treasury management investments	19	24	15
Service investments: Loans	0	0	4
Service investments: Shares	0	0	0.5
Commercial investments: Property	1.51	1.60	2.38
Commercial investments: Other	0	0	0.5
<b>TOTAL INVESTMENTS</b>	20.51	25.6	22.38
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
<b>TOTAL EXPOSURE</b>	20.51	25.6	22.38

### 11.2 How investments are funded

Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Guidance on the use of borrowing to fund commercial investments was issued by PWLB in November 2020. Under the new rules, councils seeking to borrow from the PWLB will now have to provide a three year capital plan, confirming it does not intend to borrow primarily for yield at any point over the period or from any source. The new guidance appears to prevent local authorities from borrowing from the PWLB if the intention of the borrowing is primarily for the generation of yield. Capital spending plans will have to be submitted in advance, and if a local authority intends to buy commercial assets primarily for yield (even

using reserves) then they will be prevented from taking any PWLB borrowing in that financial year.

The Authority does not currently have any investments which are funded by borrowing.

- 11.3 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

*Table 9: Investment rate of return (net of all costs)*

Type of investment	31.03.20 Actual	31.03.21 Forecast	31.03.22 Forecast
Treasury management investments	0.70%	0.28%	0.11%
Service investments: Loans	N/A	N/A	At least 0.60%
Service investments: Shares	N/A	N/A	At least 0.60%
Commercial investments: Property	6.4%	6.3%	4.2%
Commercial investments: Other	N/A	N/A	At least 0.60%